

Message Text

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PAGE 01 BONN 16032 301844Z

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
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R 301800Z SEP 75
FM AMEMBASSY BONN
TO SECSTATE WASHDC 3283

C O N F I D E N T I A L BONN 16032

EXDIS

E.O. 11652: GDS
TAGS: EFIN
SUBJECT: DEBT PROPOSAL BY EGON BAHR

REF: STATE 226372; BONN 15846

1. DURING SEPT. 26-28 TIDEWATER CONFERENCE, AID ADMINISTRATOR PARKER EXPLAINED TO EGON BAHR THE PROBLEMS US WOULD HAVE WITH HIS SUGGESTIONS FOR EASING THE TERMS OF LDC DEVELOPMENT LOAN DEBTS OR FOR A ONE-YEAR MORATORIUM. BAHR SAID HE WAS DISAPPOINTED AND INDICATED HE WOULD EITHER DROP HIS PROPOSALS OR TRY TO FRAME THEM IN A WAY THAT WOULD BE MORE ACCEPTABLE TO US.

2. EMBOFF SUBSEQUENTLY DISCUSSED BAHR'S PROPOSAL WITH DR. WIESEBACH, WHO HEADS POLICY PLANNING OFFICE IN ECON COOPERATION MINISTRY. WIESEBACH ALSO EXPRESSED DISAPPOINTMENT AT NEGATIVE US REACTION AND ADVISED THAT WE CONSIDER AGAIN THE POLITICAL BENEFITS OF SUCH A SWEEPING GESTURE. HE RECOMMENDED DUTCH PROPOSAL TO OECD AHG ON OECD-LDC ECONOMIC RELATIONS AS A GOOD BASIS FOR STUDY AND DISCUSSION BY CREDITOR COUNTRIES. (WIESEBACH HAD EXPECTED DUTCH TO PROPOSE A CANCELLATION OF LDC DEBT, AND WAS SURPRISED TO FIND THEM TAKE SUCH A ..CONSERVATIVE.APPROACH.) WIESEBACH ARGUED THAT
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THE INCREMENTAL COST WOULD NOT BE VERY HIGH, SINCE

CREDITOR COUNTRIES WOULD HAVE TO RESCHEDULE INDIAN, PAKISTANI, AND EGYPTIAN DEBTS IN ANY CASE. EMBOFF POINTED OUT THAT IT WOULD TAKE A REVERSAL OF LONG-STANDING US POLICY TO USE DEBT RESCHEDULING FOR AID PURPOSES AND THAT A MORATORIUM IS NOT PERMITTED UNDER PRESENT LAW.

3. WIESEBACH THOUGHT THAT BAHR'S SUGGESTION ABOUT INCLUDING COMMERCIAL CREDITS WAS PERHAPS PREMATURE. HE RECOGNIZED THAT COMMERCIAL CREDITS POSE WIDE-RANGING COMPLICATIONS FOR ANY DEBT RELIEF EXERCISE, DUE TO DIFFERENCES IN MIX OF COMMERCIAL AND PRIVATE CREDITS EXTENDED BY CREDITOR COUNTRIES AND DESIRE NOT TO SEE RECIPIENTS USE RELIEF OF OFFICIAL DEBT AS MEANS FOR OBTAINING ADDITIONAL COMMERCIAL CREDITS FOR NON-ESSENTIAL IMPORTS. WHILE COMMERCIAL CREDITS MUST THEREFORE BE TAKEN INTO ACCOUNT, HE DID NOT THINK THEY COULD THEMSELVES BE INCLUDED AT THIS POINT. SINCE THE PRIVATE SECTOR CANNOT BE EXPECTED TO BEAR THE COST OF EASING THE TERMS OF COMMERCIAL CREDITS, FINANCE MINISTRIES WOULD FIRST HAVE TO BUDGET FUNDS FOR COMPENSATING PRIVATE CREDITORS. WE DID NOT SEE MUCH LIKLIHOOD OF THIS HAPPENING IN BONN IN THE NEAR FUTURE.

4. ABOVE REPORT DRAFTED AFTER ADMINISTRATOR PARKER DEPARTED BONN AND WAS NOT CLEARED BY HIM. HILLENBRAND

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, PERSONAL OPINION, LESS DEVELOPED COUNTRIES, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 SEP 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BONN16032
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750339-0430
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975092/aaaaabqx.tel
Line Count: 88
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 75 STATE 226372, 75 BONN 15846
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 04 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 JUN 2003 by ShawDG>; APPROVED <10 OCT 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: DEBT PROPOSAL BY EGON BAHR
TAGS: EFIN, GE, (BAHR, EGON)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006